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COMMUNITY COMMENTS ISSUE

Free enterprise system
finds support in Europe

Consumer spending key to U.S. economy

Women slip further from income equality

High-yielding U.S. Treasury notes draining savings banks

Capital investment, at ebb, waits '90, signals

New price spiral threatens U.S. recovery

Carter to meet finance crisis as tough as one FDR faced

COMMUNITY SERVICE, INC.

YELLOW SPRINGS, OHIO

THE WORLD'S ECONOMIC PLIGHT &
COMMUNITY RESPONSIBILITY

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Community Service, Inc. is a non-profit organization devoted to serving the interests of the small community as a basic social institution. It invites membership and support from persons with interest in this field. The \$10 annual membership fee includes a subscription to our Community Service Newsletter, published six times a year. Subscription to the Newsletter is \$5.00 per year. All contributions are appreciated, needed, and tax deductible. Overseas subscriptions are \$7.00 per year.

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Introduction

Community Service has particularly concerned itself with the social costs of national economic policy--of the characteristic capitalist economy--because of the immense impact it has had on the small community throughout the world. It has been making the point that the immense tide of human population into the large cities is to a large extent caused by the same characteristics of the economy that cause unemployment and inflation, and that the social costs of over-large city living are yet more severe than the social costs of unemployment. Since past issues of Community Comments have dealt so extensively with this aspect of the problem, we are devoting most of this issue to other aspects of the social costs of traditional economic policy. But to keep things in perspective we reprint here a brief statement from an earlier issue dealing with the historical economic cause and character of small community eclipse.

Because there is developing a reverse tide of human population out of the large cities into rural areas in some of the more "mature" economic societies, sociologists and demographers are coming to conceive of this as some kind of historical law, that an "immature" economy has its population move into the large cities and a "mature"

one has a reverse trend. They do not have adequate insight into the economic forces that created unemployment and this historic displacement of people into the large cities in the first place, or the progressive deterioration of human living in the large cities that eventually impels those who can to get out, or the industries to leave which find human labor and circumstances there unprofitable.

Over the past nine administrations of the nation, covering thirty-six years, Community Service among others has periodically given warning of this underlying economic defect that must be corrected if major critical problems of society are to be effectively dealt with. In 1940 Arthur E. and Griscom Morgan wrote the article Get Capital Off Relief that is condensed in this issue of Community Comments. At the beginning of the Kennedy administration an article "The Economics of Non-Inflationary Full Employment", and at the beginning of the Nixon administration The Community's Need for an Economy, were both published in Community Comments. This subject is of such current importance that it is appropriate to bring it up-to-date to the challenge facing this era of the nation--and of the community movement.

The World's Economic Plight & Community Responsibility

The innermost realities of life are integrally associated with outward and material affairs. Human brotherhood must take such forms as sharing food with one's starving neighbor. So it is in the economic order, which is at heart an order of culture and spirit. Abraham Lincoln expressed this perception in his 1861 address to Congress:

There is one point...to which I ask a brief attention. It is the effort to place capital on an equal footing with, if not above, labor, in the structure of government. It is assumed that labor is available only in connection with capital; that nobody labors unless somebody else, owning capital, somehow by the use of it induces him to labor...

Now, there is no such relation between capital and labor as assumed...

Labor is prior to, and independent of, capital. Capital is only the fruit of labor, and could not have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration."¹

Continuously and increasingly since the time of Lincoln, our market economy has been distorted by an unrecognized peculiarity that drastically violates the principle Lincoln asserted. The result is to give capital a dominating role in the economy that vitiates much that is best in life. The consequence is a wide range of social and personal tragedy: unemployment, inflation, insanity, extremes of wealth and poverty, crime, the population

explosion, a major cause of international conflict, and degradation in the character of life and education.

One of the most dangerous myths is the idea that capitalism is synonymous with free enterprise. A Webster's dictionary defines capitalism as "an economic system in which capital and capitalism play the principal part". In Abraham Lincoln's terms, this means that under capitalism labor is subordinate to capital. John Ruskin in his Unto This Last defined the essential condition of capitalism: "the art of becoming 'rich', in the common sense, is not absolutely nor finally the art of accumulating much money for ourselves, but also of contriving that our neighbors shall have less. In absolute terms, it is 'the art of establishing the maximum inequality in our own favor!'"² Chronic unemployment is a necessary condition of capitalism. Ruskin explained that "what is really desired, under the name of riches, is, essentially, power of men". Where there is ample alternative employment, much of that power vanishes. It is not a free enterprise economy that increasingly limits freedom in enterprise and gives power over employment to the more powerful capitalists. Inadequate employment

1. Abraham Lincoln, 1861 Annual Message to Congress, in The Writings of Abraham Lincoln, Modern Library, New York 1940, p. 689.
2. John Ruskin, Unto This Last, Four Essays on the First Principles of Political Economy, George Allen, London 1903, p. 45.

for labor also means inadequate market for enterprise. The great economist Maynard Keynes emphasized this in writing:

If effective demand is deficient not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeroes, so that the players as a whole will lose if they have the energy and hope to deal all the cards. But if effective demand is adequate, average skill and average good fortune will be enough.³

Under the monetary system that yields capitalism the cards have been stacked, as Keynes shows, against all but the capitalist, and so the small enterpriser, the small community and the laborer have lost their shirts and the technologies that went with small holdings. Huge aggregations of capital can buy up the small, and huge capital holdings find it easier to use large technology and economic organizations, however inefficient they may ultimately be.

We shall now show how capitalism with its artificial scarcity and unemployment came to dominate a market economy. And we shall show that we can have, as some civilizations have had, free enterprise monetary market economies that were not capitalist, were free from inflation, unemployment, and artificial scarcity. These economies enfranchised the role of labor as Abraham Lincoln asserted labor should be enfranchised.

All of the capitalist nations have, with temporary exceptions, unemployment and inflation. Capitalist economists have made graphic the relationship between the two in the "Phillips Curve", a graph showing that

progressively as the economy approaches full employment inflation increases, wiping out the buying power of wages, and as inflation goes down so unemployment goes up. Thus freedom from both is impossible under capitalism. It was with this condition in mind that Maynard Keynes wrote:

The authoritarian state systems today seem to solve the problem of unemployment at the expense of efficiency and freedom. It is certain that the world will not much longer tolerate the unemployment which apart from brief intervals of excitement, is associated, and in my opinion inevitably associated--with present day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.⁴

THE ISSUES CONFRONTING THE CARTER ADMINISTRATION

Like President Roosevelt, Jimmy Carter campaigned on the important issue of the needs and rights of the common people, particularly the need for adequate employment levels without rising inflation. Yet the situation today is almost identical to that facing earlier adminis-

trations for the past forty-four years. The economist William Janeway wrote in the Spectator⁵ regarding the beginning of the Nixon administration: "What is true of American society at large is true of the American economy as well: the prerequisite for stability has become radical change". By 'radical' here the meaning is to go to the roots of the condition rather than dealing with superficial features. Janeway asserted: "The American economy is simply too big and too complex to be fine tuned by either of the policy meat axes, fiscal or monetary... As matters stand, price stability in America means an intolerable level of unemployment--perhaps as much as 6 or 7 percent (which means well over 10 percent in the ghetto). An average unemployment below 4 percent means an intolerable level of inflation at home and accelerated loss of competitiveness abroad."

Each of President Carter's programs to cope with these problems carries over the same pattern of inadequate analysis as has cursed other administrations. For example, the endeavor to increase the consumer's buying power through tax rebates and public works is at the expense of further unbalancing the budget. Nixon's Secretary of Treasury William Simon pointed out that the American government, to raise funds for such unbalanced budgets borrows the very funds that are needed to finance private industry. Mr. Simon and most economists fail to recognize that those funds needed for investment in private industry the financier will not invest in it even if the federal government does not borrow them, because the economy cannot pay the interest capital asks. This leads to a result that Adam Smith pointed out as historic for civilizations over the millennia: "When by taxes upon the necessities and conveniences of life, the owners and employers of capital... find that whatever revenue they derive from it will not, in a particular country, purchase the same quantity of commodities which an equal income

3. Maynard Keynes, General Theory of Employment, Interest and Money, Harcourt, Brace and Co., 1935, p. 380.

4. Ibid

5. William Janeway, "America, Same Old Mess", Spectator November 15, 1968.

Twenty years earlier, in an essay "The Limitations of Keynesian Economics", a Columbia University economist, William Vickrey, wrote: "under our present economic institutions there is a limit below which the interest rate cannot be driven by monetary measures; this limit may not be low enough to permit investment to be stimulated to the level needed to produce full employment... the amount of cash issued might well be so great as to be a serious threat to the stability of the economy: if an upturn were eventually induced, it might easily become an unmanageable boom... Budgetary policy alone may in the present situation be relatively ineffective against inflationary pressures. Or if it is effective, it may be adequate only when carried to such lengths as to have very serious repercussions." (From Social Research, December 1948, Vol. 15, No. 4. New School for Social Research, New York City.)

would in...another, they will be disposed to remove to the other... The industry of the country will necessarily fall with the removal of the capital which supported it."⁶

The unbalanced budgets of nation, states and cities have been mounting, and with them the interest burden that means increasing income to those same financiers that already find inadequate investment for their interest income. Within the ten years including the Vietnam War, the interest burden of the national government doubled in proportion to the cost of living, to become the third largest item in the national budget.⁷

The ever increasing income of the financiers at the expense of society makes impossible essential programs for mankind's future. The problem of energy policy for the nation is integrally associated with this economic issue. We should be paying many times as much for petroleum products as we are now paying, while using a small fraction as much. We should be investing heavily in new well-insulated housing for the common people. We should be rebuilding the small communities of the nation. But the common people receive too little income to pay for their housing, for higher cost gasoline and for the basic necessities of life.

Too large a proportion of the national income goes in interest, rent and dividends to the wealthy--in other words to "capital". How is the nation that has pioneered in human freedom going to change the distribution of income without totalitarian measures that destroy the so-precious freedoms? The labor parties in England, Germany and in Israel have not found the answer to these questions. The problem is not solved by E. F. Schumacher's laudable effort to depict "Small as Beautiful" and to resuscitate intermediate technology. The older highly qualified intermediate technologies were killed by the great concentrations in capital and control over markets that result from the economic forces that have prevailed.

HISTORICAL BACKGROUND OF THE ECONOMY

Throughout most of human history and prehistory the small community successfully played a key role in human life, defending, educating, transmitting the cultural heritage, controlling and distributing the limited area of land and resources within its boundaries and maintaining morale and economy in terms of larger values than those of just the isolated individual. There was no intrinsic conflict, but rather an ecological harmony was achieved, between the life of the community, that of the individual, and that of the larger world beyond the community. Instabilities existed and wars were fought, but the stability of the small community persisted. The crucial factor that over the world caused the breakdown of the local community and its economy was analyzed by John Collier in the Newsletter of the Institute of Ethnic Affairs: (Nov. 1948)

*This is taken from The Community's Need for an Economy, Section IV, Community Comments, Vol. XX, Numbers 1-2, March 1969.

A world-wide, urgent problem is that of the rural local community--the village community--in the modern world.

Can it become once more, what it was for aeons, the richly flourishing home of its members? Can it thus become, while also uniting its members with the nation and the world? The future of India, of Indonesia, of Africa, of the Andean Highlands and Mexico, and of many other regions, is bound up with the answer to this question. Research, experiment, and cautious yet intense social enterprise, are called for by the question. Tragically little of these are being supplied.

Dutch administrators and scholars have thought long and deeply upon this question. They generally assume, or conclude, that when money economy enters the village community, the genius of the community starts to die. The complexly organic unity falls apart, intra-village rivalry takes the place of mutual aid, social value perishes. But the scholars acknow-

6. Adam Smith, The Wealth of Nations

7. Time magazine of May 3, 1972 printed an article by George Church stating that "Interest on the debt--currently 12 billion a year for the federal government--devours tax dollars that are urgently needed for other purposes. Debt service is now the third highest public expense, exceeded only by spending for defense and education; most of the money goes to banks, which are the major buyers of bonds that government at all levels sell to cover their deficits. Moreover, debt functions as a wrong-way income distribution device, channeling tax money that is paid in large part by the poor and the middle class into the pockets of wealthy holders of trust accounts or stock in banks." In addition to this burden of public debt, private debt has snowballed far more rapidly. Harry B. Ellis in the November 17, 1972 Christian Science Monitor reported for the previous 25 years a 25 fold increase in private debt to 140 billion dollars. The gross national product had increased only five times.

U. S. News and World Report on June 6, 1975 reported that federal expenses per capita had increased in ten years from \$610 to \$1,510, far outstripping the 69% jump in prices. Interest on the federal debt during that time had increased by 175% to \$146 per person. Two years earlier the same periodical warned that government "moves to boost economic activity have had limited success so far. Record deficits are being run up, chiefly to channel massive sums to people with low incomes. The public has responded with caution, however: spending has not risen sharply and savings remain unusually high."

ledge that very little of wisely planned and sustained experimentation has yet been carried out.

It is not necessary to conclude from this analysis that a money economy must or always had such a degenerative effect on the community. Most human societies have had some form of money and market.

The typical capitalist economy displaced the integrity of the local economy largely because of a little recognized characteristic of our particular monetary system--that our money is designed to serve both as a medium of exchange and as a store of wealth. In consequence such a money is characterized by what Maynard Keynes called "liquidity preference"; it becomes scarce because it can be a store of wealth out of circulation rather than only a medium of exchange. Our high interest rates are required to persuade people to lend such a money. As economist Dudley Dillard has pointed out,

such a money in its role as a store of wealth stands as a barrier to full production, that is, unemployment is caused by money.⁸

But there have been effective monetary systems that had fundamentally different characteristics and effects yielding full employment without depression and inflation cycles. Such economies have existed for hundreds of years with widespread economic well-being. They were not capitalist, because they were not dominated by the role of capital. The pre-Columbian central American economy was such an economy, highly developed and more sophisticated than the European economy of the same era. And we know how it was able to work without inflation and unemployment. Its money was based on the cocoa bean, and not on the characteristics of gold.

Capitalism rose when gold or merchandise certificates for a certain amount of gold came to be used as money. Those certificates then carried the characteristics of gold, of being hoardable without loss. But certificates for a certain number of bags of cocoa beans had to carry with them the depreciation and storage costs for the beans, and this is what drastically changed the characteristics of the economy.

If owners of money have to pay storage costs they cannot then charge high interest for money, for they are under compelling necessity to trade or invest lest their assets shrink excessively, just as the farmer and laborer cannot hold their resources off the market for long without loss. One of the Spaniards who came to Central America with Cortez expressed it as follows: "Oh Blessed money which not only gives to the human race a useful and delightful drink, but also prevents its possessors from yielding to infernal avarice, for it cannot be piled up, or hoarded for a long time".⁹ Thus this Central American economy could have free enterprise, a widely used money, freedom from inflation and full employment.

In Medieval Europe the same effect was achieved through a system of having currency periodically lose some of its face value. This system prevailed for more than two hundred years in Europe during the period of the guilds and Gothic architecture. It was a time of rapid techno-

logical advance, commercial prosperity, full employment and of prosperous small cities predominantly less than eight thousand in population.¹⁰

Brooks Adams wrote that this "was an interval of almost unparalleled commercial prosperity".¹¹ Julian Borchardt, in his The People's Marx wrote: "It is a matter of general agreement that the (economic) crisis constitutes a grave disturbance of equilibrium between production and consumption... The question rises: was this always the case? or was there a time in which no such disturbance occurred--nay, may even have been impossible? I know nothing of any commercial crises during the Middle Ages... of serious ruptures of the equilibrium between consumption and production."

The distinctive feature of the monetary system during this crucial period of European history was the widely used "seigniorage" tax on money, making it infeasible to use money as a store of wealth. After this tax was discontinued, economic depression and unemployment set in over Europe, and the ensuing misery led to the peasants' rebellion in Germany, widespread breakdown of the traditional small communities and the displacement of rural people to large cities.

The Central American and medieval European monetary systems had an effect equivalent to inflation in forcing capitalists to go ahead and spend or lend their sums of money that were unused awaiting a higher rate of interest to be lent. Yet it did not impair the people's buying power, for it did not cause inflation in price levels or loss in buying power or wages and fixed incomes. The effect of this currency shrinkage was a drastic reduction of interest rates, and hence of the income of capital.

This period in Europe suffered severely from the abuse of private ownership of land imposed by the feudal nobility except among the communes and the "free cities". For land and money are twin fundamentals of life in any but the most primitive or totalitarian economic orders. The great relief from land scarcity and exploitation by the nobility from the Black Death has been widely recognized, for it reduced the population of Europe to less than half. But the important role of the seigniorage tax has only recently been discovered as an important feature of the economic wellbeing of that era.

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8. Dudley Dillard, "The Theory of Monetary Economy" in Post Keynesian Economics, edited by Kurahara, Rutgers University Press, 1951, p. 12.
 9. Petrus Martyr, quoted by Don Taxay in Money of the American Indians and other primitive currencies of the Americas. Nummus Press, Box 1058, Flushing, New York, 1970, p. 47.
 10. Dr. Hugo Fack, The Miracle of the Gothic, Huntington Park, California, 1943.
 11. Brooks Adams, The Law of Civilization and Decay, New York, Vintage Press, p. 138.

The Stimulus of Inflation without the Harm: Inverse Relationships

In terms of current economic thinking, the "Phillips Curve" shows the rise in unemployment as inflation declines and inversely the rise in employment with increasing inflation.

Since we have increased employment as inflation rises, the valuable effect of inflation can be kept while maintaining stable price levels by giving to the currency a declining value in terms of a constant value of the dollar. This may sound like a contradiction. But it is not. Conceive of the currency as equivalent to a bushel of apples. The apples depreciate, the bushel remains a constant measure. Making a similar distinction in our monetary system is thus a means of dealing with this central problem of our economic society.

The economic program of a depreciating currency without inflation has been advocated by many economists, such as Silvio Gesell of Germany, Appa Parwardhan of India, and Arthur Dahlberg and William Vickrey of Columbia University. Dudley Dillard, who was head of the economics department of the University of Maryland, wrote in an essay on the subject, "It should be observed that there exists, so far as this author is aware, no satisfactory refutation of these proposals".¹²

THE COMMUNITY'S RESPONSIBILITY

President Carter's promise to deal effectively with unemployment and inflation was highest in priority in his presidential campaign. But educated people concerned with human welfare have not adequately considered alternative courses of action, as they did in the anti-slavery, peace and labor movements. Consequently the public is not prepared for the needed action. Maynard Keynes put the problem succinctly in writing, "The ideas of economists and philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else".

The economic proposals we have outlined for attaining full employment without inflation have been with us for many decades. The principal objections to them have not been that they are economically or technically unsound or unworkable, but that they are politically unrealistic, so they have not been given a wide hearing.

The United States as a nation is too large to be able to pioneer the necessary deepseated change in its economy. The conflicts of interest, lack of awareness of issues, and unpreparedness to think them through and act on them are too great an obstacle to make such a change in policy a realistic alternative to the present "same old mess", as economist William Janeway termed it. Most established communities are too much stuck in a rut of old procedures. This is the kind of pioneering that only a few local communities might undertake if they can think large enough to conceive of the wider implications of action.

Just as the Society of Friends following John Woolman's leadership initiated the anti-slavery movement and abolished slavery in its midst, to be followed by states and nations, so today there is the necessity for small scale pioneering of this great cause. Communal ownership and operation of economic affairs with the elimination of money within the communal society is an escapist response to the wider need of mankind. If the larger society is not to be a bureaucratic totalitarian one, the money market economy is required. It is time the community movement rose to the challenge to pioneer on a small scale in economic forms that are relevant to the national and world order.

Techniques for establishing a shrinking currency on a national scale are very simple, some of them described elsewhere in this Community Comments. * The face value of the dollar can be secured to the cost of living if it is backed by strategic reserves of many goods: grain, oil, metals, other foods, and so on, that would be needed in time of national emergency. The cost of storage of such reserves would be paid for by the shrinkage in value of the currency. In view of the great over-supply of currency now hoarded out of circulation, only that amount of currency needed in circulation would be subject to shrinkage, the rest left to be hoarded out of circulation--like non-interest bearing public bonds.

Most of the nation's money exchange is now in the form of bank transactions rather than the physical transfer of currency. But the nation's currency and bank reserves of currency set the value, the character and the understanding of the money system. Bank money could most easily be accommodated to the change we are suggesting. Arthur Dahlberg believes that it could be the focus of the shrinking currency money system. Others, with the author, believe that the currency system itself should largely set the pattern of the bank money system with the government only guaranteeing bank deposits subject to shrinkage on the new plan.

*Community Policy and Initiative, Part Two. Community Comments, Volume XX, Numbers 1-2, January-March 1970.

12. Dudley Dillard, on cit

\$1.00 IN TRADE	UNITED TRADE DOLLAR EXCHANGE				\$1.00 IN TRADE
CHICAGO, ILLINOIS					
Seal	STAMP April 1 DATE	STAMP July 1 DATE	STAMP Oct. 1 DATE	Idle Money Means Idle Men	SERIAL NUMBER
NON-HOARDABLE					
\$1.00 IN TRADE	DATE OF SALE		EXCHANGE ADDRESS		SIGNATURE
\$1.00 IN TRADE					\$1.00 IN TRADE

Money Must Circulate

Money is the life-blood of present day society. Just as in the human body a reasonably high blood pressure is required to keep blood circulating, so a reasonably strong pressure is required to keep money circulating throughout the economic system. It is inevitable that where there is no pressure, there money will tend to accumulate.

Our Federal Reserve statistics give us positive evidence that money is accumulating in banks faster than it flows out of them. There are now four billions of dollars in excess of working reserves resting in American banks, which, if in active circulation, could represent financial transactions of many times that amount in the course of a year. If that money could be made to circulate out of the banks into trade and not accumulate in them, the prevailing depression and unemployment would be largely ended.*

Labor must work lest it starve, agriculture and industry must produce and trade in order to pay fixed costs, but uninvested capital (the unspent income of individuals and corporations) can rest idle until it gets the "wages" it asks. Why not make capital also work lest it "starve"? (lose value when held out of use.)

The prevailing assumption is that uninvested capital should be coaxed into investment by the attraction of high interest rates. This paper proposes that sanctions be provided that will result in idle capital's being spent or invested in private industry, even as labor is compelled to seek work by the sanction of hunger, and as agriculture is forced out of its historic self-sufficiency by the sanction on taxation.

Never before in the history of the world has money been the key to the livelihood of all men. Before the Civil War in our country a large part of the population was producing at home most of what each family needed. The majority of the population on the farms used money chiefly to buy salt, iron and cotton. Trading or barter was with them the rule rather than the exception. For money, staples like sorghum were a medium of exchange. It was inefficient and cumbersome, but at least there was no artificial scarcity--plenty of food and goods with inadequate buying power with which to exchange them. The Civil War changed all this. The government debt accumulated to pay for the Civil War had to be paid in national currency levied from a farming population. To obtain money with which to pay his taxes the farmer had to trade his produce for money, and he became part of the national monetary economy with both its benefits and its curses.

Today the farmer's wife, instead of manufacturing cloth and clothes, buys her family's clothes from the mail order house. The farmer, instead of supplying his horse with fuel off his own land, now buys gasoline for his tractor. Specialization in production has irrevocably revolutionized the world, yet money, the means of exchange, is used as though we were still back in the middle ages; the putting away of money out of circulation is

still taken for granted.

If the rain fails to replenish our land with water, our agriculture will perish. The same is true of our economic system. If more money leaves our economic system than goes into it, it will perish. Money does leave it, in effect, when those people who receive large incomes fail to invest or spend them. It helps but little for the government to issue or print more money, for that too accumulates and goes out of circulation. When too much accumulates out of circulation there is danger of runaway inflation. The New Deal policy of having the government borrow from the accumulations of dollars, spending the borrowed money for public works, "priming the pump", is only placing the government in greater debt and is not bringing permanent recovery.

Since 1933 government borrowing and spending of surplus income of the wealthy has been the most important cause of renewed economic activity. In 1929, new security issues which are the major source of investment of surplus wealth, were 85% private and 15% public, totalling 9.4 billions. In 1934 they were 97% public and 3% private, totalling 6.2 billions. The result of this artificial recovery is very different from the economist's theoretical recovery. It is as though the country again had gone to war. Just as the end of war brings depression, so also the stoppage of public borrowing and spending of money has resulted in renewed depression. Thus in the latter half of 1937 and the first half of 1938 the government ceased to so greatly increase the national debt; the ensuing business recession was caused by this temporary stopping of "pump priming".

The income of the mass of producers--workers, farmers, enterprise--is not great enough to enable them to buy what they produce, while property income of the wealthy, in interest, rent, and profits, is too great for them to consume or to continuously invest in factories or other plants to produce yet more consumers' goods for which there is inadequate market. The larger the income of the wealthy minority, the less is their compulsion to risk its investment at such interest rates as prevailing business can offer.

In dealing with our economy we must be good engineers. We must devise methods of taking advantage of automatic economic forces, and must control them ingeniously and cleverly, even as an engineer uses materials

*This was written in 1940. In 1977 one firm alone, the IBM Corporation, reported unused bank reserves of six billion dollars. This wealth had flowed into the Corporation and was not distributed as dividends to stockholders or invested in productive use. The information only became public when the Corporation decided to use some of these reserves to buy out better than a billion dollars worth of stock from its stockholders. This was the subject of Nicholas Von Hoffman's Sunday, March 22, 1977 column, under the title "IBM's Tidy Hoard of \$6 Billion Acts as Drag on Economy" as printed in The Dayton Daily News.

in accord with the laws of mechanics to create devices that are well fitted to their use, and are simple and easy to operate. He takes full advantage of all forces and tendencies, but supplements them with such controls as are necessary.

In America and in Europe we have had enough experience to prove that a laissez-faire economy of merely allowing wealth to flow without any "economic engineering" or control is fatal. That policy allows wealth to accumulate unused, and to turn traitor to its mother country by building in other countries industries which will displace the industry which gave birth to that wealth. On the other hand we have had in Russia and Italy the example of the inefficiency of totalitarian countries in which the attempt to manage the flow of wealth without the advantage of automatic economic forces has led to inefficiency, and to the loss of civil liberties.

Insofar as capitalism works efficiently, it works because the open market maintains a constant automatic equilibrium between the incomes of all the factors in the economy--labor, industry, agriculture, and capital. When pencils become scarce it takes no governmental decree to see that pencil production increases, for the increase in the price of pencils automatically attracts capital and enterprise to the pencil business. When the free enterprise economy ceases to work, it is the recovery of a sound equilibrium between the factors of the economy that we should seek; we should not start ruling the intricacies of the economy by decree. The economic equilibrium is now upset in favor of capital, and against industry, agriculture, and labor.

Capital is now receiving too large an income, and too much uninvested capital is the result. The only alternative to impelling the investment of surplus income by the wealthy, is for the government to take over the wealth and function of capital, which in turn would give it control over all economic affairs. If the equilibrium of the market is given up in one part of our economy (as it would be by the governmental management of investment, or control of wages and prices), it will likewise be lost in the rest of the economy. For example, the government subsidies and price supports for agriculture have upset the automatic working of the agricultural market.

The saving and storing of wealth is desirable and justified. The nation needs supplies and stores of many metals, and these metals should be available for use in time of adversity or of rapid industrial expansion. Stores of food and many commodities are needed against times of economic reverse. The storing up of other kinds of wealth than money does not cause depression, but instead gives employment in the production of the wealth that is to be stored away at considerable storage cost. But the storing away of money takes from the nation its means of circulating wealth.

It is believed by some of our foremost economists that the lack of a normal domestic market for American industry and agriculture is primarily the result of an unbalanced distribution of income. Harold Moulton, president of the Brookings Institute of Economics, writes: "The basic defect of our economic system... is to be

found in the way in which we conduct the distribution of income". An unbalanced distribution of income causes depression and unemployment, because if the wealthy fail to spend their large incomes, there is not sufficient market in the working classes for what industry and agriculture can produce. But it is not only the failure of the wealthy to spend and to invest their income which causes depression and unemployment. Even if the national income were distributed more evenly, as the economists advise, many people would naturally still tend to spend or invest their incomes very undependably--sometimes fast and sometimes with much delay--upsetting the nation's circulation of wealth inflation or deflation and restriction of production and employment.

Classical economists taught that such a maladjustment would be automatically corrected by laissez-faire economics. According to classical economic theory, the oversupply of unspent income would depress interest rates, then the lowered rate of interest would reduce the income saved until savings could be fully invested. Those economists did not take into consideration the tendency of men and corporations to let their money savings accumulate unspent and uninvested.

Interest rates do not fall in proportion to the oversupply of capital, because capital more than any other element of the economic system can refrain from working, and so can get from such capital as is invested a relatively high rate of interest. It requires no conspiracy in restraint of trade between capitalists to hold tax-free money out of use and keep interest rates high. The prevailing rate of interest is thus determined by the lack of incentive to invest money, as well as by the supply of money awaiting investment.

Society has come to a unique place in history, to a turning point when it must be decided that in the future money will have to go to work. If the income of capitalists and of the middle class is so great that all the money they wish to save cannot be profitably invested, their income is too high. Since the income of capitalists is proportionate to the interest rate on their invested capital, a lowering of interest rates would reduce the supply of money awaiting investment.

The present policy of our government is quite the opposite of the policy we advocate. Instead of attacking the economy of scarcity which finds expression in the "sit-down-strike" on the part of capital, it has promoted that scarcity. By borrowing to increase the national debt it gives capital its principal outlet to investment, relieving it of the necessity of going into private investment, and holding the interest rates higher than the private securities market can justify.

By making money depreciate without inflation we could achieve an automatic distribution of income, sensitively geared to the needs of our economy. In this way what Harold Moulton described as the "basic defect of our economy" could be rectified.

by Arthur E. and Griscom Morgan

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Although an American, Richard Gregg wrote for an audience in the Gandhian movement of revolutionary India. Gregg does not assume that the reader is trained in economics, a refreshing approach.

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fined by different people.

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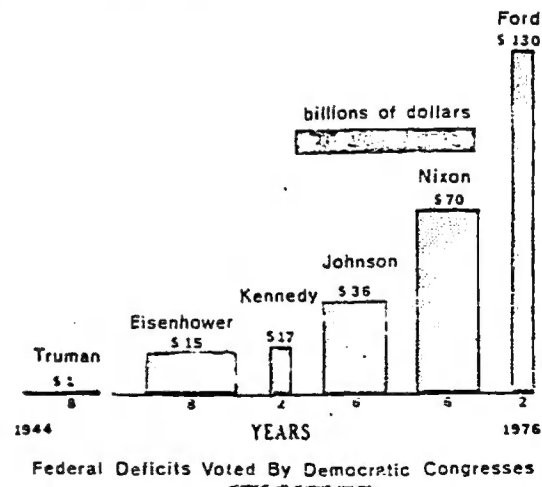
Appa Patwardhan did for India what Gesell did for Europe and Dahlberg did for the United States, departing from conventional devices of economic policy he calls for a demurrage charge on currency. In Nature Forging... Patwardhan traces the evolution of money indicating that the trend of social economy is toward a shrinking currency.

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WHERE DOES IT END?



From Arthur Dahlberg's Capitalism's Defective Medium of Exchange by permission of the author.

The Market Economy under Socialism

Translated from TEXT '71, Munich
Reprinted from Atlas, September 1971

(Little pockets of Czech refugees in various parts of Europe are all that remain of the Czechoslovakian government of early 1968, that was overthrown by Soviet Russia. Ota Sik, chief architect of the economic reforms proposed in '68, when professor of economics at the Swiss universities of Basel and St. Gallen, pursued his dream of a "market economy under socialism". These remarks, reprinted from a Munich-based journal for Czech emigrés, were delivered to an audience of students near Munich in late June of 1971.)

Experience in various communist countries has proved that planning of the sort Marx and his generation of economists had in mind is impracticable today because there are too many products being made, specialization of labor is too complex and market demand so changeable that no government is capable of telling each manufacturer what and when to produce. Only large-scale tasks for industry can be planned. An example of the problems faced today is that Czechoslovakia, even four years ago, produced one-and-a-half million products of which only some 12,000 could be guided by planned production.

Another fundamental drawback is that the socialist system does not know how to reward economic activity in true proportion to the usefulness of that activity to society.

The main trouble is that socialism has been made a dogma so that orthodox Marxists have become apologists for their ideology and ceased to be scientists, renouncing the fundamental principle of Marxism that no knowledge is final and that the only criterion of theory is practice.

There is never a confrontation of theory with practice since that would prove most of the postulates untenable. I am deeply convinced that the state-monopoly system in the East is incapable of further development. The possibility that this system can maintain itself by its own power for several more decades is no proof of its vitality.

The managed economy on the Eastern pattern is disappointing primarily because it cannot meet the declared needs of society. Where the state can afford to regulate specific programs--as in the armament industry and the space program--it can be successful. But this is not possible in mass production of consumer goods where there will always be fluctuating supply and demand.

Judging the fifth Czechoslovak five-year plan from this point of view, it is clear that, for instance, more apartment houses can only be built if there is enough capital and skilled labor available and if these projects do not conflict with foreign programs. The fundamental question which is not answered is where existing resources can best be used, for international trade or to satisfy needs at home.

How can the results of the so-called "complex socialist

rationalization" be measured when all prices are artificially determined and more or less fictitious, and when more often than not the "rationalization" benefits superfluous production which is only minimally useful to society?

The market economy appears to me to be an indispensable way of regulating economic systems. Flexible prices, competition among manufacturers and in the market place and a well-planned economy backed by a purposeful state financial policy are the preconditions of harmonious development.

I see a difference between socialism and communism. I am a socialist and because the only communist system I have seen in operation has discredited the idea of economic socialism for most people in the West, I must reject it. Socialism can win only if its achievements are attractive enough to convince others of its value and not through force, as the Soviets believe...

by Ota Sik

Why Wait for Washington?

Our economy serves the functional level of human relations. Through the exchanges that you participate in, you are an active part of various economic communities. There is no escape from the world and national economies. Yet, on the other hand, there is no substitute for individual awareness of economics and for local action. Each initiative center, be it individual people, business organizations, or different levels of government, will reflect and respond to the actions of others. Choosing not to take responsibility for our part is a decision to turn over to the government our share in many people's lives. Leaving the management of the economy to national governments is surrendering this vital part of our lives to centralized authority, a demand that central government even at its best can only partially fulfill. Do we want to say, "We will not try to cooperate with each other, but want to be cogs in a vast economic machine"? Our actions are the answer.

Each exchange of goods and services is an opportunity to use our eyes and imagination in trying to see what part our activity plays in the different levels of our economy. How does money come to us? Where does it go? What sorts of exchange or passing on of goods and services takes place without money? Do we use a bank for checks? Savings? How does the bank use the money? Although we will probably never feel that we have figured it all out, becoming a conscious participant is a big step towards effectiveness in change.

Each exchange or gift is an opportunity for decision. We can choose which stores to patronize, to buy local products or products from further away. We have the option not to buy items from South Africa or from companies that promote military spending. Consumer boycotts are good examples of the power of choice. Try to imagine the possible economic effects of each purchase or sale.

What will the next guy do with the money or the goods?
What more general trends is our action contributing to?
What pattern of associated living, what values might this exchange reinforce?

Every transaction is a chance for human contact, a social event. Why rush by the subway or movie ticket taker without even a smile or nod? Recognize that money is a social fluid, use the moment.

Look for opportunities to associate with others using a different kind of economic pattern. The Amish are able to thrive as an autonomous economy within the larger economy; why not others too? There are various economic forms and devices that people have instituted short of the Amish example. We list some below.

In considering what you might do, become aware of which organizations or informal groups in your area monitor the local economy. What is the Chamber of Commerce doing? The Bankers' Association? Regional Planning Commission? Where does your banker drink coffee? Who are his cronies? Communities need deliberate economic policy as they need educational and political procedures. Perhaps there should be a citizen's ad hoc group concerned with economic information and function.

Are the local banks responsive to area needs? Is the stock owned locally? Where do they invest depositors' money? The effect that a bank can have on an area by investing most of the money it controls outside the region is not hard to imagine. There are many sad examples of a bank leaching a city neighborhood or rural county. One answer to this problem could be forming a credit union, where each depositor is a voting member of the corporation.

Another way to harness local monies for local investment is to form a Community Development Corporation (CDC) or a Local Development Corporation (LDC). The CDC model is a corporation not-for-profit made up of area residents. CDC's raise funds through bonds, personal notes and bank loans for local investment in business or housing... An LDC sells shares, usually to local residents. From the sale of shares money is available for loans to business and to serve as partial surety on loans to local business from banks.

Through the years our buying habits have evolved to the point that most of us expect a discount supermarket and department store standard. Large stores outside of the local community offer variety and possibly lower price while sacrificing social contact with customers and attention to local commodities. Often the inventory, even of goods produced locally, is channeled through a central warehouse in some other distant city. Any local producers face the cost of transportation to the warehouse before their product could return for sale locally. Small retail shops have to compete with the giants, but why limit retail business to stores?

The spread of yard sales and flea markets seems to point in a healthy direction. Perhaps we are bringing back the market in the United States. Think about the community

where you live. Are there enough people who would use a street market or fair as a sales outlet? A chance to sell goods without the overhead costs of rent, utilities, wages might encourage more local independent business. The yard sale is in large part a recycling service for used items, as is Goodwill and equivalent places for sale of cast off goods. Formal street markets and farmers' markets could be limited to local producers and area retail stores. Thus the expansion of these different activities would not need to be a threat to existing retail stores.

In Chicago, the Self-Help Action Center, Inc. was organized by underprivileged residents to foster food buying clubs. Food is bought from small farmers and brought into the city for sale at food fairs or through club orders. As of the spring of 1976 they had organized 250 food co-ops handling \$22,000 each week. Their work has branched out to include nutrition advice, helping people find jobs, settle child problems, and inform people of Social Security and welfare benefits. Since receiving publicity in the August 1974 READER'S DIGEST Self-Help Action has hosted visitors from other cities and neighborhoods from over the nation. You may be interested in contacting them: Self-Help Action Center, 11013 South Indiana Avenue, Chicago, Illinois 60628.

Who owns the land and housing in your locale? Has there been a trend in ownership changes recently? Inflation makes land an attractive investment for large money holders. As more land is sought for purchase, prices go up. The assessed value for taxes goes up in turn raising tax rates. This rise in tax cost tends to force homeowners and independent farmers to sell. Thus throughout the United States large corporations and wealthy individuals are buying up land. As a result in many areas land for sale as farms or even house lots is scarce. Various approaches to this problem have been suggested. You may see possibility of one of these approaches helping in your area.

A community based corporation on the CDC or LDC model can be the vehicle for getting enough capital to compete with private land investors.

Municipal governments are often involved in low cost housing and commercial developments.

A group of people can pool their individual assets in a partnership or co-op to have more purchasing power. Each of these means can be used for different purposes. One model that explicitly requires landholding for the common social good is the Community Land Trust. A CLT is a non-profit corporation with the purpose of holding land in stewardship for all mankind present and future while protecting the legitimate use rights of its residents. Land purchased through one of the various means we have mentioned could be put in such a trust.

* * * * *

During the 1930's many towns had success using local currencies as a supplement to the sluggish national currency. Most effective were the demurrage stamp scrips on which tax stamps had to be placed in order to maintain their value from week to week. The current need for such money is discussed in the lead article of this Community Comments. We quote here an account

by Hans Timm (translated by Hugo Fack), initiator of the Wara alternative currency along these lines that lasted in Germany from 1925-1931.

The first attempt was made by Polenske at Flensburg, but Polenske collided with the state and had to give up although the money began rapidly to spread. He, (during the German inflation) had his money in the form of a check secured by gold, but to be provided with demurrage stamps (to be bought and put on the currency to keep the currency at its original face value).

The idea of issuing a money which was a genuine medium of exchange and completely divorced from the traditional money, circulating on its own power as needed medium came from me. I presented it at the convention to the delegates of our association, and found enthusiastic acclaim.

I therefore organized the Exchange and wrote all preparatory articles, giving to the new medium the name of Wara--the equivalent of the ware.

Exchange groups were established in 20-30 cities and lists of businesses accepting Wara were circulated.

Many friends and helpers expanded these lists daily and before long in many places wages and salaries could be paid partly in Wara. With this the internal circulation within the association was replaced by a circulation going far beyond our membership. Whoever accepted Wara became automatically member of the exchange. Soon businesses in order to participate in the business performed by Wara put up their own signs, WE ACCEPT WARA.

All attempts to stop the use of Wara legally failed. In vain our delegates were arraigned and subject to questions. In vain the local directors of the Reichsbank pounded their fists on the table trying to intimidate our representatives. (I remember having read that even banks accepted Wara, as in Hamburg---Hugo Fack.)

At that time many industrial concerns were ready to work with Wara, for example the industrial giant, Bosch-ignitions. In central Germany whole miners' organizations, municipal administrations, savings co-operatives, etc. wanted Wara. Wherever it went it displaced the traditional money.

'The Wara is displacing the Reichsmark', cried the directors of the Reichsbank everywhere, and also the bankers in general. Like an avalanche it grew now. At this stage, Chancellor Bruening, later Harvard economist, stepped in and prohibited the Wara Action by an unconstitutional decree, i.e. by an act of violence.

Now the Wara miracle was not at an end yet. There was no obligation to redeem it, and all of the enterprises had to stop its circulation, all issues of Wara were redeemed by us, apart from small remnants presented too late. Our friends sacrificed much to accomplish this. Apparently members having Wara

burnt them to help us from greater difficulties. Many were gathered, collected for curiosity. It was a great example of solidarity and comradeship amongst extreme individualists.

The prestige of the first great attempt of free money was saved. The theoretically irrefutable free money had been successfully applied.

An account of a successful American community issuing a Wara-style demurrage currency in the late 1930's is presented in our Community Comments, Vol. XX, Nos. 1-2.

Certainly we have only touched the surface of possibilities for economic action in your community and region. The accompanying list of books and addresses may help you in your search.

For information about Community Development Corporations write:

Center for Community Economic Development
639 Massachusetts Avenue, Suite 316
Cambridge, Massachusetts 02139

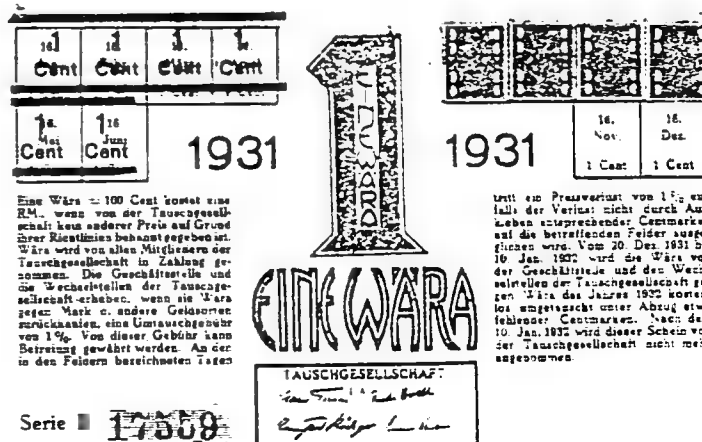
Contact your area Small Business Administration (in the phone book) for information about Local Development Corporations.

For information about Land Trusts order from Community Service, Inc.:

The Community Land Trust, a guide to a new model for land tenure in America, by the International Independence Institute. (See back cover for ordering instructions.)

Past issues of Community Comments have described economic projects in specific communities. You may wish to consult in particular Community Initiative Part II, Vol. XX January-March 1970. The Community in Economic Pioneering, Vol. 22, No. 1.

A Lawyers' Manual on Community-Based Economic Development. The National Housing and Economic Development Law Project. Earl Warren Legal Institute, University of California in Berkeley 1974.



THE EFFECTS OF UNEMPLOYMENT AND INFLATION MULTIPLIED BY LARGE CITIES

In a Labor Day meeting of 1975 the American Psychological Association heard reports of the impact of unemployment and inflation on the population in terms of mental illness, physical illness and crime, with the assertion that "the cost of these is greater than would be the cost of programs to create jobs".

A just published 1976 study of the "Social Costs of National Economic Policy" initiated by the Joint Economic Committee of the United States Congress (*) gives concrete evidence of this harmful impact of unemployment and inflation upon society beyond the immense cost of relief and loss of production and service. For every one percent increase in unemployment in the nation's population this study shows there is approximately a four percent increase in mental hospital and prison admissions, and a 5.7 percent increase in homicide. This effect of unemployment has been fairly constant over many decades and is repeated with minor variations in other countries. Those elements of the population with the greatest unemployment, such as blacks and youth, are of course much the more severely affected. The current eight percent rate of unemployment results in a third again as much insanity and criminal activity and a sixth again as much illness in the general population as a whole. As long as these unemployed people are looking for jobs, the wage levels of the employed are depressed, and the circumstances of labor are debased. The backlog of unemployment is harmful to the general population, as was slavery in its degrading effect not only on the slaves, but also on the rest of the population. It destroys the order of society as a healthy organism.

(*) Achieving the goals of the Employment Act of 1946--Thirtieth Anniversary Review Volume I--Employment. Paper #5: Estimating the social costs of National Economic Policy. A study prepared for the use of the Joint Economic Committee, Congress of the United States, Hubert H. Humphrey, Chairman. Prepared by Harvey Brenner, Ph.D., Associate Professor, Dept. of Social Relations, School of Hygiene and Public Health, The Johns Hopkins University, published by the U. S. Government Printing Office, Washington, October 1976.

The Congressional Study of the Social Costs of National Economic Policy is of particular significance in relation to Community Service studies of the environmental factors causing harm from large city living. In "The Small Community, Population and the Economic Order"

we identified the rate of murder or homicide as a particularly sensitive measure of stress and damage from large city living. About 70 percent of murders are between acquaintances. Comparative homicide rates give objective and conclusive evidence that large city populations have effects on their inhabitants equivalent to the known effects of crowding lower animals, which shows up in fighting, in over development of the adrenal cortex, and impaired ability to bear healthy young, cumulative from generation to generation.

The new study done for the Congressional Committee similarly shows the rate of homicide as the most sensitive index and response to the stress of unemployment,

and interprets the increase in rate of murder as a consequence of stress.

In "The Small Community Population and the Economic Order" to which we have referred, the FBI data on correlation of size of city with different kinds of crime also showed a comparably greater increase in homicide as compared with other kinds of crime.

1969 Rates of Murder for Cities of Different Size per 100,000 Population

250,000 and over ---	19.2	10,000 to 25,000 --	3.9
100,000 to 250,000 --	10.8	10,000 and less ---	3.5
50,000 to 100,000 ---	5.9	rural -----	5.9
25,000 to 50,000 ----	4.8	suburbs -----	4.2

(From the statistical abstract of the United States)

The rate of murder for New York and Chicago is about 40 per hundred thousand. The figures for rural areas, like insanity rates, show that too sparse living out of community is also unwholesome.

Thus the harm from large city living is far greater even than that of a high level of unemployment. The two multiplied by each other show up in the consequences that our cities have recently been experiencing.

In that Community Comments we also gave statistical evidence that the population explosion afflicting the world is to a significant extent also a consequence of the same economic disorder. We demonstrated that for most of humanity over most of its life on earth there had been social population controls to maintain population numbers in relationship to the environment. The myth promulgated by some demographers that heretofore human populations have reproduced to their limit regardless of the food supply was not characteristic of most human societies. Contrary to that view, Malthus wrote that in the local primitive community the limitations of resources were "too glaring to escape the most careless thinker". So population control under those circumstances was widespread. He emphasized that "these checks are absolutely necessary in civilized and improved countries as they would be if each family had a certain portion of land allotted to it."

The population explosion took place as the capitalist economic order spread and people lost control over their lives and circumstances. The relationship between birthrate and an immediately recognizable limitation in food potential was gone. Unemployment upsets the responsible relationship between reproduction and environment. We find a world-wide increase in birthrate of people who became unemployed (among a few people the reverse effect takes place and people give up having children) because unemployment is a disintegrator of society and of personality and of social and personal and family controls. (*) The data now made available by the Congressional Committee demonstrate the character of this social breakdown.

(*) During the thirties in the United States the birthrates of white collar workers increased 40%, of skilled workers 30% and of the unskilled 28% when they became unemployed, whereas the birthrates of the employed declined. Lorimer and Osborn, Dynamics of Population, MacMillan, 1934, p. 64.

The following charts and accompanying text are from Senator Humphrey's introduction to the Joint Economic Committee Study:

VII

Table 2

CUMULATIVE IMPACT OF THE 1.4 PERCENT RISE IN UNEMPLOYMENT DURING 1970

Table 1

IMPACT OF A SUSTAINED ONE-PERCENT CHANGE IN UNEMPLOYMENT

Social Stress Indicator	Data Period	Change in the Stress Indicator 1/	Social Stress Indicator	Stress Incidence - 1975	Change in Stress Indicator for a 1.4 Percent Rise in Unemployment	Increase in Stress Incidence Due to the Rise in Unemployment
Suicide:	1940-1973	4.1%	Suicide:	25,960	5.7%	1,540
State Mental Hospital Admissions:	1940-1971	3.4	State Mental Hospital Admission:	117,480 ^{1/}	4.7	5,520
Males--		4.3	State Prison Admission:	136,875 ^{2/}	5.6	7,660
Females--		2.3	Homicide:	21,730	8.0	1,740
State Prison Admissions:	1935-1973	4.0	Cirrhosis of the Liver Mortality:	32,080	2.7	870
Homicide:	1940-1973	5.7	Cardiovascular-Renal Disease Mortality:	979,130	2.7	26,440
Cirrhosis of the Liver Mortality:	1940-1973	1.9	Total Mortality:	1,910,000	2.7	51,570
Cardiovascular-Renal Disease Mortality:	1940-1973	1.9				
Total Mortality:	1940-1974	1.9				

1/ Measured as a proportion of the total indicator incidence occurring in the fifth year following the one-percent change in unemployment.

1/ 1972 data, age 65 and under.

2/ 1974 data.

The low relative size of changes in these stress indicators due to unemployment fluctuations is not surprising. A bewildering variety of factors influence the mental and physical state of contemporary society—many of which are far more influential than jobless status alone.

At the same time, this study reveals that unemployment has a strikingly potent impact on society. Even a one-percent increase in unemployment, for example, creates a legacy of stress, of aggression, and of illness affecting society long into the future. In just the subsequent five years, this study reveals that it has a multiplier effect far exceeding the relative size of the unemployment rise.

The human tragedy alone of unemployment revealed by this study is shocking—shocking enough to demand a persistent, priority effort by Washington policy planners to reduce unemployment and to keep it low, as well. At the same time, we can go further and attach specific monetary values to the human toll portrayed in Table 2.

In instances of CVR disease, cirrhosis, suicide, homicide, and total mortality, appropriate dollar values include foregone incomes, adjusted for age and sex characteristics. In effect, illness and deaths attributed to unemployment reduce our Nation's resources—our ability to produce goods and services. And, one good measure of this loss is the foregone income of deceased or ill workers. Direct medical costs for unemployment related care should be included as well.

TABLE 2

ESTIMATES OF THE TOTAL EFFECTS OF 1 PERCENT CHANGES IN UNEMPLOYMENT RATES SUSTAINED OVER A SIX YEAR PERIOD ON THE INCIDENCE OF SOCIAL TRAUMA (BASED ON THE POPULATIONS OF 1970 AND 1965)

Measures of Social Trauma	Incidence of pathology related to 1 percent increase in unemployment based on 1970 population	Incidence of pathology related to 1 percent increase in unemployment, based on 1965 population	Total Incidence of Pathology, 1965	Incidence of Pathology in 1965 related to 1 percent increase in unemployment, 1960 - 65 as a proportion of total 1965 Pathology
(1)	(2)	(3)	(4)	(5)-(3)÷(4)
Total Mortality	36,887	15,362	1,328,000	.019
Whites				
Males	12,160	11,366	911,000	.013
Females	16,514	15,709	695,000	.023
Nonwhites				
Males	3,329	3,599	125,000	.028
Females	4,161	3,911	98,000	.040
Cardiovascular Mortality	20,240	19,225	1,000,797	.019
Cirrhosis of Liver Mortality	495	470	24,715	.019
Suicide	920	874	21,507	.041
Homicide	648	616	10,712	.057
State Mental Hospital First Admissions*				
Males	4,227	5,045	117,483	.034
Females	3,058	2,935	68,917	.043
State Prison Admissions	1,159	1,110	48,566	.023
State Prison Admissions	3,340	2,952	74,724	.040

AMERICAN EXPERIENCE IN THE DEPRESSION WITH DEMURRAGE CURRENCY

Stamp Scrip, Irving Fisher. Adelphi Co., New York, 1933.

We review this book for those who want to consider demurrage currency in greater depth. Stamp Scrip was written at a time when many towns in the United States had issued their own scrip or were proposing local scrip.

Fisher wrote the book in 1933 in order to encourage the use of stamp scrip as a temporary measure to help move out of the Depression.

Wara currency in Germany and the experiment then in progress at Woergel, Austria, are described, as are currency issues in eighteen U.S. towns.* Unfortunately for us information in the book is largely limited to what had just been started. Fisher did not have past experience in the United States to report on. We have not found a follow-up study.

In a chapter titled "A Stamp Scrip Manual for Localities" Fisher outlines the way to proceed in issuing your own currency on his model. He advocates scrip that is issued for one year at the end of which each note is redeemed at face value in U. S. dollars. Each Wednesday a stamp that costs 2% of the face value must be stuck on the bill before it can be used in the succeeding week. At this rate of stamp charge the currency issue will have paid for itself at a year's end. Fifty-two weeks at two cents on the dollar, per week, makes \$1.04 in stamp charges. Generally the municipal government and Chamber of Commerce would organize the issue, the city agreeing to accept scrip for tax payments and perhaps paying labor in scrip for a major public works project.

Appendices to the book include the text of bills proposed to Congress and the Pennsylvania State Legislature, sample wording for forms and promotional literature needed in launching a local currency and a report on Reading, Pennsylvania's stamp scrip.

Hawarden, Rock Rapids, Albia, Nevada, Pella and Eldora, Iowa; Evanston, Illinois; Russell, Kansas; Granite Falls and Jasper, Minnesota; Lexington, Nebraska; Enid, Oklahoma; Merced and Anaheim, California; Dothan, Alabama; Reading, Pennsylvania. Fisher was not aware of the use of a comparable seigniorage tax on local currencies during the Middle Ages. Nor does he discuss or appear to be aware of the possibility of stamp scrip as a permanent monetary reform. There is no discussion of the rate of demurrage. Successful European precedent was 12% each year rather than Fisher's 104%. These omissions are disappointing. The book should be read (if you can find it!) with Griscom Morgan's work in mind. However, Stamp Scrip is valuable as a reminder of the precedents for monetary reform set by many towns in the United States.

*Community Comments "The Simplicity of Economic Reality", Vol. XX, No. 4 and "Community Policy and Initiative Necessary to Rural-Urban Balance and Economic Well-being", Vol. XX, Nos. 1-2.

What Authorities have to say about the Dahlberg book:
HOW TO SAVE FREE ENTERPRISE, Arthur Dahlberg. The Devin-Adair Co., 1974.

Arthur Dahlberg's new book, HOW TO SAVE FREE ENTERPRISE, has a title that does not do justice to its importance, since it shows that much more than free enterprise is at stake. It is a major economic study, written by a highly qualified economist, which surveys economic theory extensively and argues the case for a new free market order with such fullness, weight of argument, and effectiveness of expression that the economics profession and the world of business and government could easily be spurred by it to advance into a new era of economic thought and practice.

The present free market order is not in a healthy condition. Why are unemployment and inflation necessary to the mechanics of the free society as we now know it? The free world cries for an answer to that crucial question. Dahlberg faces up to it squarely. He vividly and convincingly reveals that both evils are built into our free market mechanism by certain erroneous and overlooked arrangements which could easily be rectified.

All capitalist countries today have progressive inflation, and practically all recognize that such inflation is the alternative to severe unemployment. They know from experience that to have a market active enough to give full employment results in runaway inflation, and that to stop inflation results in drastic unemployment. That is the quandary to which Dahlberg has given his persistent attention.

In 1944, Dahlberg organized the widely known U.S. Economics Corporation, and for twenty-five years was a consultant to managers of America's very largest corporations. Concurrently, for over twenty years he has been Director of the Visual Economics Laboratory of Columbia University. Thus his immersion in the academic world has been extensive, and his competence tested and proved in the market place.

How to release fully the productive capacities of our men and machines, how to stabilize prosperity, how to improve the distribution of income to the benefit of employees without price inflation, how to do all this under the economists' ideal of effective regulation with a minimum of governmental regulation is the theme of this book.

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by Arthur Dahlberg

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